TEACHERS'RETIREMENT BOARD

BENEFITS AND SERVICES COMMITTEE

SUBJECT: Client Advisory Committee Meeting Briefing

ITEM NUMBER: 6

ATTACHMENT(S): 1

ACTION: ___

MEETING DATE: September 3, 1998

INFORMATION: X

PRESENTER: Ms. DuCray-Morrill

SUMMARY

A regularly scheduled meeting to the Client Advisory Committee (CAC) was held on July 8, 1998. Following are summaries of the main topics of discussion.

CalSTRS staff provided a status update on the many retirement-related bills potentially impacting CalSTRS' membership. Jennifer DuCray-Morrill discussed budget matters, including the status of Elder Full Funding. Specifically, AB 2804 (PER&SS) relates to the appropriation of the Funds for the payment of any benefit increases and other educational objectives. The Senate Budget Subcommitee recommended Budget Bill language that the System conduct a valuation as of June 30, 1998, to determine its' full-funding status. (That language subsequently was included in the Budget Bill that went to the Governor.) Specific benefit increase legislation is currently under negotiation with the Administration.

In addition, Jennifer provided an update on the Congressional hearings related to mandatory Social Security for teachers. The Advisory Committee was informed that a strong grass roots effort was needed by members, active and retired alike, to thwart the momentum in Washington D.C. to mandate this coverage. A number of members requested copies of the CalSTRS issue paper on Social Security offsets, written by CalSTRS' Kathy Bosler, which is attached.

On other matters, CalSTRS staff discussed various reporting issues, including the reporting to CalSTRS of adult education hours by the Los Angeles Unified School District and the extent to which employers follow a standard for reporting. This may be discussed in the future as necessary.

SOCIAL SECURITY

THE GOVERNMENT PENSION OFFSET AND THE WINDFALL ELIMINATION PROVISION

- The Windfall Elimination Provision and the Government Pension Offset affect government employees and retirees in virtually every state. However, these provisions severely impact employees in Alaska, California, Colorado, Connecticut, Illinois, Kentucky, Louisiana, Maine, Massachusetts, Missouri, Nevada, Ohio, Rhode Island, and Texas.

- A majority of the seven million federal, state, and local government employees currently working in noncovered employment will be subject to the Windfall Elimination Provision or the Government Pension Offset, or in some cases, to both.

- Nationwide, more than a third of all teachers are not covered under Social Security. A majority of these teachers will be subject to either the Windfall Elimination Provision or the Government Pension Offset, or in some cases, to both.

- The National Association of Retired Federal Employees (NARFE) conducted a survey of their members in December of 1997. The results indicated there were 270,975 beneficiaries affected by the Government Pension Offset, and 356,119 affected by the Windfall Elimination Provision, -- a total of 627,094 receiving reduced benefits, or having their benefit eliminated altogether.

Background

When Social Security was originally established in 1935, government employees were excluded because of the constitutional question of levying the employer portion of the tax on governmental agencies. Subsequently, federal law was amended several times allowing more public employees to be covered. In some cases, it was an all-or-nothing choice; in others, the choice was voluntary for current employees but mandatory for all future employees. As of November 4, 1996, the U.S. House of Representatives Green Book stated there were 1.5 million noncovered federal employees and 5.5 million noncovered state and local government employees.

Legislation was passed in 1977, effective in 1982, establishing the **Government Pension Offset (GPO)**. This provision reduces Social Security benefits for spouses or surviving spouses if they are receiving a pension based on noncovered employment (Social Security taxes not paid on earnings).

Legislation was passed in 1983, effective January 1, 1986, establishing the **Windfall Elimination Provision (WEP)**. This provision reduces Social Security benefits through an alternative calculation for individuals who qualify for both a Social Security benefit based on their own covered employment and a pension based on noncovered employment.

The application of these provisions can have a severe impact on the financial security of retirees who have spent some portion of their working lives serving the public: teachers, police officers, fire fighters, Social Security's own employees, Congressional staff, and many other federal, state, and local government workers.

Simply stated, if a person's own Social Security is reduced, it’s WEP; if the benefit being reduced is based on a husband or wife's Social Security benefit, it’s GPO. Both of these provisions will be discussed.

<u>The Windfall Elimination Provision (WEP)</u>

Social Security provides the following rationale for this provision:

> Social Security benefits replace a percentage of a worker’s pre-retirement earnings. The formula used to compute benefits includes factors that ensure lower-paid workers get a higher return than highly paid workers. For example, lower-paid workers could get a Social Security benefit that equals up to 60 percent of their pre-retirement earnings. The average replacement rate for highly paid workers is about 25 percent.

Published information from Social Security states that prior to the enactment of this provision in 1983, benefits for people who spent time in jobs not covered by Social Security were computed as if there were long-term, low-wage workers. "They received the advantage of a higher percentage of benefits in addition to their other pension." See Attachment I for the Social Security publication on this topic.

The following example, explains how the Windfall Elimination Provision reduces benefits:

Benefit Recipient - Born in 1932
Average Indexed Monthly Earnings $712 *

COVERED EMPLOYMENT
REGULAR FORMULA

90% of first $422	=	$379
32% of next $2,544 ($290)	=	93
15% of any remainder over $2,544	+	0
Regular Formula:		$ 472

NON - COVERED EMPLOYMENT
WINDFALL ELIMINATION PROVISION (WEP)

40% of first $422	=	$168
32% of next $2,544 ($290)	=	93
15% of any remainder over $2,544	+	0
Under WEP:		$261

* 35 years average adjusted for inflation

As indicated in the above example, the regular Social Security formula multiplies the first level of earnings by 90 percent. Even a minimal government pension reduces the multiplier to 40 percent.

The logic used to enact this provision assumed that government workers in noncovered employment had spent the majority of their careers in their government jobs. The employment histories of individuals subject to this provision are as unique as their DNA. Many came to their government jobs after a considerable number of years working and paying Social Security taxes in the private sector.

Consider the following direct excerpts from letters written by teachers:

> I contributed to Social Security for 26 years as did my employers, and was hoping to retire at 65 years of age in January of 1998, but I was shocked to discover my Social Security would be cut to only $366 per month because I taught school for the last 7 years and I will receive a teacher's pension of $550 per month. Who can live on this amount?

> When I retired I was told by Social Security that Congress had voted to wipe out my (wife's) portion under my husband's account, dollar for dollar, and I would receive nothing from that source. I was also told that a congressional vote reduced my munificent Social Security account (that I had earned by my own labor) from $420 to

> $168 per month. Why? Because I would receive a retirement allowance of $670 per month from the California Teachers' Retirement Fund. I thought of teaching as a noble profession and took a $10,000 cut in salary in order to teach.

The individuals in the above examples paid into Social Security prior to the enactment of WEP and were not aware of the reduction created by WEP. When they requested an estimate from Social Security, they were provided with standardized estimates that did not take WEP into consideration. Neither of them knew their Social Security benefits would be reduced when they entered the teaching profession.

Since each work history is different, WEP creates an inequity not only between those subject to WEP, but also an inequity between Americans. Neighbors, both having paid into Social Security for 15 years on precisely the same earnings will not be treated equally if one of them is receiving even a minimal pension based on work not covered by Social Security.

Consider the irony of dedicated teachers, purportedly valued by our society, having the Social Security benefits they paid for and expected to receive reduced **because** of their careers in education.

H.R. 2549, introduced by Representative Barney Frank (D-MA), would change WEP to apply only to individuals whose combined monthly income from Social Security and their government pension exceeds $2,000. For individuals with benefits between $2,000 and $3,000 per month, the provision would apply on a graduated scale. For those receiving more than $3,000, the WEP formula would apply as it currently exits.

The Government Pension Offset (GPO)

Social Security provides the following rationale for this provision:

> Social Security spouse's benefits provide income to wives and husbands who have little or no Social Security benefits of their own. From the beginning of the Social Security program, spouse's benefits were intended for women and men who were financially dependent on their husbands or wives who worked at jobs covered by Social Security.

The original federal legislation enacted in 1977, required a dollar-for-dollar reduction in Social Security benefits for spouses or surviving spouses who received a pension from a federal, state, or local retirement system. In 1983, the formula was modified to allow for a reduction of two-thirds of the government pension, as the following example illustrates:

Without the Government Pension Offset

- Covered private sector spouse age 65 receives $1,000 per month from Social Security.
- His non-working spouse also age 65 receives $500 on his account (50% of $1,000).

With the Government Pension Offset

- However, if the noncovered spouse is receiving a government pension, the following formula applies:

$1,200	-	Per month Government Pension
x 2/3		
$ 800	-	To be offset
$ 500	-	Spouse's Social Security
- 800	-	STRS Pension to be offset
$ 0	-	Payable in Social Security Spouse Benefits

Social Security's published information states that "before the offset provisions were enacted, many government employees qualified for a pension from their agency and for a spouse's benefit from Social Security, even though they were not dependent on their husband or wife." See Attachment II for the Social Security publication. This publication also contains an explanation of how benefits are calculated if both husband and wife are covered under Social Security.

Social Security's logic was that a person who worked in a government job long enough to become entitled to a government pension was not completely dependent on the worker. This assumption is problematic because in many state and local systems, a worker is vested and eligible to receive a pension after completing only five years of service. Hence, the government employee receives a minimal pension from his or her own employment and also suffers the spousal reduction.

The application of the Government Pension Offset results in the spousal benefit being entirely eliminated in the majority of cases even though the Social Security covered spouse paid taxes for his or her entire working career. Again, those who serve the public receive unfair and unequal treatment.

The result of the Government Pension Offset is sometimes more egregious than the application of the Windfall Elimination Provision as the following real life examples illustrate:

> Consider the case of a school employee who spent 20 full time years working for a city school system in Ohio. When she retired, she found that her modest government pension of $490 per month would be offset against her deceased husband's Social Security benefits, leaving her with a spousal benefit of $95 per month. Her total income is only $155 a month more than if she had stayed at home all of those 20 years - about $7.75 a month for each year she worked!
>
> A newspaperman who paid into Social Security for 60 years was receiving the highest benefit possible from Social Security ($900 per month) when he died of Alzheimer's disease in 1993. His spouse receives a little more than $200 per month from Social Security in widow's benefits because of the GPO. She has a modest pension from an intermittent career as a staff assistant on Capitol Hill.

Consider the case of a widow entitled to a government pension and Social Security on both her own earnings and her deceased husband's earnings. Her case is the antithesis of "double dipping"; this widow suffers from "double

The Government Pension Offset and the Windfall Elimination Provision

- **Widow's benefits effective January 1998 = $991**
- **Widow's government pension = $656**
- **Widow's own social security = $134**

$991	**-**	**Widow's Benefit**
- 134	**-**	**Reduced by own Social Security**
$857	**-**	**Total Widow's Benefit**
- 438	**-**	**Reduced by 2/3 of Government Pension**
$419	**-**	**Total Widow's Benefit**

The current GPO law creates an inequity in distribution of Social Security benefits. The standard for this narrow class of individuals, retired public employees who are the spouses or surviving spouses of retirees who were covered by Social Security, is inconsistent with the overall provisions of the Social Security Act.

H.R. 2273, introduced by Representative William Jefferson (D-LA) in July of 1997, would partially repeal GPO so that those receiving government pensions would be entitled to a larger portion of their spouse's Social Security benefit. Retirees could keep up to $1,200 a month in combined benefits, and the full amount by which the combined government pension and Social Security spousal benefit exceeds $1,200 would be applied as an offset to the Social Security benefit.

S. 1365, introduced by Senator Barbara Mikulski (D-Md) on November 4, 1997, also provides for retirees keeping up to $1,200 per month in combined benefits, but under Senator Mikulski's bill, the reduction in Social Security spousal benefits would be limited to two-thirds of the amount by which the combined monthly benefit exceeds $1,200 (with the $1,200 floor being indexed for inflation).

Summary

- Both WEP and GPO were enacted using the false assumption that government pensions are the result of substantial careers in public service. As indicated, many retirement systems allow a monthly benefit after only five years of service.

- In the private sector, 97% of the employers who provide pension plans do not require employee contributions. Government workers often make substantial personal contributions to their retirement plans. California and Colorado teachers contribute 8.0 percent of their salaries to their retirement plans. Federal employees under the Civil Service Retirement System have paid 7.0 percent of their entire salary since 1969. Private sector employees have paid from 4.2 percent in 1969 to the current 6.2 percent for Social Security. These private sector employees receive their employer paid pensions plus full Social Security benefits.

- Many women were forced to accept entry-level government jobs when they were divorced or widowed. Women are more harshly affected by the Government Pension Offset than men because their work histories are often briefer or more sporadic. Additionally, their entry-level jobs resulted in lower pay and smaller pensions.

- Many government employees affected by the Windfall Elimination Provision and the Government Pension Offset don't realize they will not receive their expected Social Security benefits until it is too late to remedy the situation. They are not aware of the reductions and offsets until they apply for Social Security. Education on these topics has been sparse, confusing, or nonexistent.

- The Government Pension Offset and the Windfall Elimination Provision have the harshest impact on those with modest means.

  H.R. 2549 will relieve the most severe inequities created by the Windfall Elimination Provision - those receiving minimal pensions from both Social Security and their government employers.

  H.R. 2273 and S. 1365 will relieve the most severe inequities created by the Government Pension Offset, again, those receiving minimal government pensions and little or no benefit as a spouse or widow.

- While there have been many legislative attempts to repeal or partially eliminate the Government Pension Offset, HR 2549 is the first legislative effort to address the Windfall Elimination Provision.

NOTE: The information contained in this article was current as of April 1998

KB:lb

LB:SocSec-GPO / WEP / May26,1998

Social Security

A Pension From Work Not Covered By Social Security

How It Affects Your Social Security Retirement Or Disability Benefits

If you work for an employer who doesn't withhold Social Security taxes, such as a government agency or an employer in another country, the pension you get based on that work may reduce your Social Security benefits.

Your benefit can be reduced in one of two ways. One is called the "government pension offset," and applies only if you receive a government pension and are eligible for Social Security benefits as a spouse or widow(er). For more information on the offset, ask Social Security for the factsheet, *Government Pension Offset* (Publication No. 05-10007).

The other way—called the "windfall elimination provision"—affects how your retirement or disability benefits are figured if you receive a pension from work not covered by Social Security. The formula used to figure your benefit amount is modified, giving you a lower Social Security benefit. This factsheet explains the computation formula.

Who Is Affected?

This provision primarily affects people who earned a pension from working for a government agency, and also worked at other jobs where they paid Social Security taxes long enough to qualify for retirement or disability benefits. It also may affect you if you earned a pension in any job where you didn't pay Social Security taxes, such as in a foreign country.

The modified formula applies to you if you reach 62 or become disabled after 1985 and first become eligible after 1985 for a monthly pension based in whole or in part on work where you did not pay Social Security taxes. You are considered eligible to receive a pension if you meet the requirements of the pension, even if you continue to work.

The modified formula is used to figure your Social Security benefit beginning with the first month you get both a Social Security benefit and the other pension.

Why Is A Different Formula Used?

Social Security benefits replace a percentage of a worker's pre-retirement earnings. The formula used to compute benefits includes factors that ensure lower-paid workers get a higher return than highly paid workers. For example, lower-paid workers could get a Social Security benefit that equals about 60 percent of their pre-retirement earnings. The average replacement rate for highly paid workers is about 25 percent.

Before 1983, benefits for people who spent time in jobs not covered by Social Security were computed as if they were long-term, low-wage workers. They received the advantage of the higher percentage benefits in addition to their other pension. The modified formula eliminates this windfall.

How Does It Work?

Social Security benefits are based on the worker's average monthly earnings adjusted for inflation. When we figure your benefits, we separate your average earnings into three amounts and multiply the amounts using three different factors. For example, for a worker who turns 62 in 1998, the first $477 of average monthly earnings is multiplied by 90 percent; the next $2,398 is multiplied by 32 percent; and the remainder by 15 percent.

The 90 percent factor is reduced in the modified formula and phased in for workers who reached age 62 or became disabled between 1986 and 1989. For those who reach 62 or become disabled in 1990 or later, the 90 percent factor is reduced to 40 percent.

There are exceptions to this rule. For example, the 90 percent factor is not reduced if you have 30 or more years of "substantial" earnings in a job where you paid Social Security taxes. The first table on the back lists the amount of earnings we consider "substantial" for each year.

If you have 21 to 29 years of substantial earnings, the 90 percent factor is reduced to somewhere between 45 and 85 percent. The second table shows the percentage used depending on the number of years of "substantial" earnings.

Year	Substantial Earnings
1937-50	$ 900[1]
1951-54	900
1955-58	1,050
1959-65	1,200
1966-67	1,650
1968-71	1,950
1972	2,250
1973	2,700
1974	3,300
1975	3,525
1976	3,825
1977	4,125
1978	4,425
1979	4,725
1980	5,100
1981	5,550
1982	6,075
1983	6,675
1984	7,050
1985	7,425
1986	7,875
1987	8,175
1988	8,400
1989	8,925
1990	9,525
1991	9,900
1992	10,350
1993	10,725
1994	11,250
1995	11,325
1996	11,625
1997	12,150
1998	12,675

[1] Total credited earnings from 1937-50 are divided by $900 to get the number of years of coverage (maximum of 14 years).

Years of Substantial Earnings	Percentage
30 or more	90 percent
29	85 percent
28	80 percent
27	75 percent
26	70 percent
25	65 percent
24	60 percent
23	55 percent
22	50 percent
21	45 percent
20 or less	40 percent

Some Exceptions

The modified formula does not apply to survivors benefits. It also does not apply to you if:

- you are a federal worker hired after December 31, 1983;
- you were employed on December 31, 1983, by a nonprofit organization that was exempt from Social Security and it became mandatorily covered under Social Security on that date;
- your only pension is based on railroad employment;
- your only work where you did not pay Social Security taxes was before 1957; or
- you have 30 or more years of substantial earnings under Social Security (as explained earlier).

Guarantee

Workers with relatively low pensions are protected because the reduction in the Social Security benefit under the modified formula cannot be more than one-half of that part of the pension attributable to earnings after 1956 not covered by Social Security.

For More Information

You can get recorded information 24 hours a day, including weekends and holidays, by calling Social Security's toll-free number, **1-800-772-1213.** You can speak to a service representative between the hours of 7 a.m. and 7 p.m. on business days. Our lines are busiest early in the week and early in the month, so, if your business can wait, it's best to call at other times. Whenever you call, have your Social Security number handy.

People who are deaf or hard of hearing may call our toll-free "TTY" number, 1-800-325-0778, between 7 a.m. and 7 p.m. on business days.

You also can reach us on the Internet. Type http://www.ssa.gov to access Social Security information.

The Social Security Administration treats all calls confidentially—whether they're made to our toll-free numbers or to one of our local offices. We also want to ensure that you receive accurate and courteous service. That's why we have a second Social Security representative monitor some incoming and outgoing telephone calls.

Social Security Administration
SSA Publication No. 05-10045
January 1998 *(Recycle prior editions)*
ICN 460275
Unit of Issue - HD (one hundred)

Social Security

Government Pension Offset

A Law That Affects Spouse's Or Widow(er)'s Benefits

If you worked for a federal, state or local government where you did not pay Social Security taxes, the pension you receive from that agency may reduce any Social Security benefits for which you are qualified.

There are two laws that may reduce your benefits. One of them affects the way your Social Security retirement or disability benefits are figured. For more information about that provision, contact Social Security for the factsheet, *A Pension From Work Not Covered By Social Security* (Publication No. 05-10045).

The second law affects Social Security benefits you receive as a spouse or widow(er). This factsheet provides answers to questions you may have about this provision.

I Receive A Government Pension. Will I Receive Any Social Security On My Spouse's Record?

Maybe not. Some or all of your Social Security spouse's or widow(er)'s benefit may be offset if you receive a pension from a job where you did not pay Social Security taxes.

How Much Is The Offset?

The offset will reduce the amount of your Social Security spouse's or widow(er)'s benefits by two-thirds of the amount of your government pension. In other words, if you get a monthly civil service pension of $600, two-thirds of that, or $400, must be used to offset your Social Security spouse's or widow(er)'s benefits. If you're eligible for a $500 widow(er)'s benefit, you'll receive $100 per month from Social Security ($500 – $400 = $100).

If you take your annuity in a lump sum, the offset is figured as if you chose to receive regular monthly benefits.

Why Is There An Offset?

Social Security spouse's benefits provide income to wives and husbands who have little or no Social Security benefits of their own. From the beginning of the Social Security program, spouse's benefits were intended for women and men who were financially dependent on their husbands or wives who worked at jobs covered by Social Security.

Before the offset provisions were enacted, many government employees qualified for a pension from their agency and for a spouse's benefit from Social Security, even though they were not dependent on their husband or wife.

This example helps clarify why there is an offset.

Bill Smith collects a Social Security benefit of $600 per month. His wife, Mary, is potentially eligible for a wife's benefit of up to 50 percent of Bill's, or $300. However, Mary also worked and paid into Social Security, qualifying for her own retirement benefit of $400. By law, Mary can only receive the higher of the two benefits she is eligible for, not both. She will not receive any wife's benefits because her $400 retirement benefit, in effect, "offsets" her $300 wife's benefit.

Bill's neighbor, Tom, also gets a Social Security benefit of $600 per month. But his wife, Nancy, had a job with the federal government, instead of one where she paid Social Security taxes, and earned a civil service pension of $800 per month. Before the government pension offset provisions were in place, Nancy would have been eligible for both her $800 civil service pension and a $300 wife's benefit on Tom's Social Security record. With the offset provision, Nancy does not qualify for a wife's benefit from Social Security and is treated the same as Mary.

Who Is Exempt?

- Any state, local or military service employee whose government pension is based on a job where he or she was paying Social Security taxes on the last day of employment. (Some government entities were not initially covered by Social Security, but chose to participate in Social Security at a later date.)
- Anyone whose government pension is not based on his or her own earnings.
- Anyone who received or who was eligible to receive a government pension before December 1982 and who meets all the requirements for Social Security spouse's benefits in effect in January 1977. (Essentially, this provision applies to a divorced woman whose marriage must have lasted 20 years and to a husband or widower who must have received one-half of his support from his wife.
- Anyone who received or was eligible to receive a federal, state or local government pension before July 1, 1983, and was receiving one-half support from her or his spouse.
- Federal employees who are mandatorily covered under Social Security.
- Federal employees who chose to switch from the Civil Service Retirement System to the Federal Employee Retirement System (FERS) on or before December 1987. Federal employees who choose to switch to Social Security coverage after that date will need five years under FERS to be exempt from government pension offset. If, however, the Office of Personnel Management allowed an employee to make a belated election to FERS, that change could have been made through June 30, 1988.

What About Medicare?

Even if you do not receive cash benefits on your spouse's record, you can still get Medicare at age 65.

Can I Still Get Benefits On My Own Record?

The offset applies only to Social Security benefits as a spouse or widow(er). However, your own benefits may be reduced due to another provision of the law. Contact Social Security for the factsheet, *A Pension From Work Not Covered By Social Security* (Publication No. 05-10045).

Any Questions?

You can get recorded information about Social Security coverage 24 hours a day, including weekends and holidays, by calling Social Security's toll-free number **1-800-772-1213**. You can speak to a service representative between the hours of 7 a.m. and 7 p.m. on business days. Our lines are busiest early in the week and early in the month so, if your business can wait, it's best to call at other times. Whenever you call, have your Social Security number handy.

Hearing-impaired callers using "TDD" equipment can reach Social Security between 7 a.m. and 7 p.m. on business days by calling 1-800-325-0778.

You can also reach us on the Internet. Type http://www.ssa.gov to access Social Security information.

The Social Security Administration treats all calls confidentially—whether they're made to our toll-free numbers or to one of our local offices. We also want to ensure that you receive accurate and courteous service. That's why we have a second Social Security representative monitor some incoming and outgoing telephone calls.

Social Security Administration
SSA Publication No. 05-10007
May 1997 *(May 1995 edition may be used)*
ICN 451453
Unit of Issue: HD (one hundred)

Printed on recycled paper